



uBuhlebezwe Local Municipality  
Annual Financial Statements  
for the year ended June 30, 2017  
These annual financial statements were prepared by:  
S Sityata  
Acting CFO  
Auditor General (S.A)  
Registered Auditors

# **uBuhlebezwe Local Municipality**

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

## **General Information**

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### **Mayoral committee**

Executive Mayor

Z D Nxumalo

E B Ngubo

### **Councillors**

C.Z Ngonyama ( Council term effective from the 1 August 2016 )

Z.M Shabalala ( Council term effective from the 1 August 2016 )

T.T Mkhize ( Council term effective from the 1 August 2016 )

B.M Caluza ( Council term effective from the 1 August 2016 )

P. Ndlovu ( Council term effective from the 1 August 2016 )

T C Dlamini

M C Ndlovu

V.C Mkhize ( Council term effective from the 1 August 2016 )

N.Z Jili ( Council term effective from the 1 August 2016 )

H C Jili

G J Ngongo

S.P Maluleka ( Council term effective from the 1 August 2016 )

N.G Radebe ( Council term effective from the 1 August 2016 )

Z C Khumalo

N M Mdunge ( Council term effective from the 1 August 2016 )

P.B Mpungose ( Council term effective from the 1 August 2016 )

S.M Msimango

C N Ntabeni

T.B Nxumalo ( Council term effective from the 1 August 2016 )

E T Shoba

B.M Khuboni ( Council term effective from the 1 August 2016 )

M.C Nkontwana( Council term effective from the 1 August 2016 )

B.R Zulu ( Council term effective from the 1 August 2016 )

B.R Nduli ( Council term effective from the 1 August 2016 )

L M Davids ( Council term effective from the 1 August 2016 )

S.C Shezi ( Council term ended on the 31 July 2016 )

B.P Nzimande( Council term ended on the 31 July 2016 )

M.E Mkhize ( Council term ended on the 31 July 2016 )

S.H Dlamini( Council term ended on the 31 July 2016 )

Z.V Shange ( Council term ended on the 31 July 2016 )

G.P Nzimande ( Council term ended on the 31 July 2016 )

M.C Sithole ( Council term ended on the 31 July 2016 )

W.M.Q Dlamini ( Council term ended on the 31 July 2016 )

N.J Peterson ( Council term ended on the 31 July 2016 )

T.P Dlamini( Council term ended on the 31 July 2016 )

### **Grading of local authority**

Grade 3 (In terms of Remuneration of Public Office Bearers)

### **Accounting Officer**

G M Sineke

### **Chief Finance Officer (CFO)**

S Sityata

### **Registered office**

Ubuhlebezwe Local Municipality

Margaret Street

Ixopo

3276

## **uBuhlebezwe Local Municipality**

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

### **General Information**

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<b>Business address</b>	29 Margaret Street Ixopo 3276
<b>Postal address</b>	P.O.Box 132 Ixopo 3276
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General (S.A) Registered Auditors

# **uBuhlebezwe Local Municipality**

(Registration number KZN 434)

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## **Index**

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The reports and statements set out below comprise the annual financial statements presented to the Provincial Legislature:

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### **Abbreviations**

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

## **uBuhlebezwe Local Municipality**

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

### **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements have been prepared on the going concern basis, were approved by the accounting officer on June 30, 2017.

  
G.M. Sinyane  
Accounting Officer

## uBuhlebezwe Local Municipality

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

### Statement of Financial Position as at June 30, 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	7	2,532,983	3,159,122
VAT receivable from exchange transactions	8	-	34,884
Prepayment		373,815	-
Trade receivable from exchange transaction & non exchange transaction	9	13,978,664	11,207,397
Cash and cash equivalents	10	118,300,602	103,229,763
		<b>135,186,064</b>	<b>117,631,166</b>
<b>Non-Current Assets</b>			
Investment property	2	20,364,596	20,379,035
Property, plant and equipment	3	240,093,018	223,206,684
Intangible assets	4	881,020	881,020
Heritage assets	5	4,808,819	4,791,660
		<b>266,147,453</b>	<b>249,258,399</b>
<b>Total Assets</b>		<b>401,333,517</b>	<b>366,889,565</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease liability - Current Portion	13	-	62,932
Trade and other payables from exchange transactions	15	19,055,101	24,822,190
VAT payable		7,220,812	-
Unspent conditional grants and receipts	14	4,103,312	9,765,228
		<b>30,379,225</b>	<b>34,650,350</b>
<b>Non-Current Liabilities</b>			
Retirement benefits: Long Service Awards	6	1,962,000	1,832,000
Retirement benefits: Post Employment Medical Benefits	6	4,738,000	3,917,000
		<b>6,700,000</b>	<b>5,749,000</b>
<b>Total Liabilities</b>		<b>37,079,225</b>	<b>40,399,350</b>
<b>Net Assets</b>		<b>364,254,292</b>	<b>326,490,215</b>
Housing Development		373,787	373,787
Accumulated surplus		363,880,505	326,116,428
<b>Total Net Assets</b>		<b>364,254,292</b>	<b>326,490,215</b>

# uBuhlebezwe Local Municipality

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

## Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	17	1,726,005	1,681,650
Rental of facilities and hall hire	18	1,173,223	985,191
Licences and permits		3,304,893	3,597,454
Other income	19	1,744,644	1,798,929
Interest received - investment	20	9,215,250	6,872,906
<b>Total revenue from exchange transactions</b>		<b>17,164,015</b>	<b>14,936,130</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	21	13,122,243	13,123,930
Donation Income		4,230,683	-
<b>Transfer revenue</b>			
Government grants	22	124,757,917	118,839,056
Fines, Penalties and Forfeits		1,579,580	1,489,350
<b>Total revenue from non-exchange transactions</b>		<b>143,690,423</b>	<b>133,452,336</b>
<b>Total revenue</b>	16	<b>160,854,438</b>	<b>148,388,466</b>
<b>Expenditure</b>			
Employee related costs	23	(52,842,444)	(49,029,454)
Remuneration of councillors	24	(8,378,802)	(7,554,047)
Impairment of traffic fines	27	(1,364,866)	(1,097,324)
Depreciation and amortisation	26	(20,114,861)	(18,742,961)
Impairment loss for assets	27	(57,809)	-
Finance costs		(1,423)	(17,066)
Contribution to provision	28	(3,946,267)	(4,688,817)
Repairs and maintenance	25	(2,882,897)	(2,930,058)
Contracted services	29	(6,764,739)	(5,759,731)
Contributions to post retirement benefits		(951,000)	(209,000)
General Expenses	30	(24,228,419)	(23,003,547)
<b>Total expenditure</b>		<b>(121,533,527)</b>	<b>(113,032,005)</b>
<b>Operating surplus</b>		<b>39,320,911</b>	<b>35,356,461</b>
Loss on disposal/ transfer of assets		(1,776,891)	(3,149,018)
<b>Surplus for the year</b>		<b>37,544,020</b>	<b>32,207,443</b>

## uBuhlebezwe Local Municipality

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

### Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Accumulated surplus	Total net assets
Balance at July 01, 2015	373,787	294,816,382	295,190,169
Correction of error	-	(687,340)	(687,340)
Correction recognised directly from revenue	-	(687,340)	(687,340)
Surplus for the year	-	32,207,443	32,207,443
Total changes	-	31,520,103	31,520,103
Restated* Balance at July 01, 2016	373,787	326,336,485	326,710,272
Changes in net assets			
Surplus for the year	-	37,544,020	37,544,020
Total changes	-	37,544,020	37,544,020
Balance at June 30, 2017	373,787	363,880,505	364,254,292
Note(s)			



Ubuhlebezwe Municipality  
Cash Flow Statement  
For the year ended 30 June 2017

	Note	2017 R	2016 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from ratepayers, government and other		143,690,423	133,452,336
Cash paid to suppliers and employees		(75,048,298)	(26,954,621)
Cash generated from operations	31	<u>68,642,125</u>	<u>106,497,715</u>
Interest received	20	<u>9,215,250</u>	<u>6,872,906</u>
Net operating cash flow from operating activities		<u><u>77,857,375</u></u>	<u><u>113,370,621</u></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets	3	(61,818,377)	(91,543,932)
Purchase of Investment assets	2		(294,667)
Purchase of Heritage assets	5	(17,159)	
Net cash flows from investing activities		<u><u>(61,835,536)</u></u>	<u><u>(91,838,599)</u></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in retirement benefits		(951,000)	(209,000)
Finance costs Lease Liability	13		(62,932)
Net cash flows from financing activities		<u><u>(951,000)</u></u>	<u><u>(271,932)</u></u>
Net increase / (decrease) in net cash and cash equivalents		<u><u>15,070,839</u></u>	<u><u>21,260,090</u></u>
Cash and cash equivalents at beginning of period		103,229,763	81,969,673
Net cash and cash equivalents at end of period	10	118,300,602	103,229,763

# uBuhlebezwe Local Municipality

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Actual outcome as a %
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	1,991,000	(300,000)	1,691,000	1,726,005	196,350	102%
Rental of facilities and equipment	500,000	24,000	524,000	1,173,223	(506,191)	224%
Interest received (trading)	4,000,000	3,500,000	7,500,000	9,215,250	(1,904,468)	123 %
Agency services	720,000	-	720,000	-	-	100%
Licences and permits	3,560,000	-	3,560,000	3,304,893	(77,454)	92%
Other income	279,000	35,000	314,000	1,744,644	(1,427,379)	612%
<b>Total revenue from exchange transactions</b>	<b>11,050,000</b>	<b>3,259,000</b>	<b>14,309,000</b>	<b>17,164,015</b>	<b>(3,719,142)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	15,754,000	(4,850,000)	10,904,000	13,122,243	(143,930)	120%
Donation Income	-	-	-	4,230,683	4,230,683	100%

##### Transfer revenue

Government grants & subsidies	95,039,000	-	95,039,000	124,757,917	8,421,289	163%
Fines, Penalties and Forfeits	250,000	-	250,000	1,579,580	(192,026)	86%

<b>Total revenue from non-exchange transactions</b>	<b>111,043,000</b>	<b>(4,850,000)</b>	<b>106,193,000</b>	<b>143,690,423</b>	<b>12,316,016</b>	
<b>Total revenue</b>	<b>122,093,000</b>	<b>(1,591,000)</b>	<b>120,502,000</b>	<b>160,854,438</b>	<b>8,596,874</b>	

#### Expenditure

Personnel	(60,566,000)	4,070,000	(56,496,000)	(52,842,444)	5,249,243	94%
Remuneration of councillors	(9,855,000)	-	(9,855,000)	(8,378,802)	1,953	85%
Depreciation and amortisation	(19,000,000)	-	(19,000,000)	(20,114,861)	(524,807)	104%
Other expenditure	(45,275,000)	211,000	(45,064,000)	(40,197,420)	19,752,768	90%

<b>Total expenditure</b>	<b>(134,696,000)</b>	<b>4,281,000</b>	<b>(130,415,000)</b>	<b>(121,533,527)</b>	<b>24,479,157</b>	
<b>Operating surplus</b>	<b>(2,577,000)</b>	<b>(2,364,000)</b>	<b>(4,941,000)</b>	<b>69,320,910</b>	<b>19,942,077</b>	
<b>Capital expenditure</b>	<b>58,280,000</b>	<b>4,603,000</b>	<b>62,883,000</b>	<b>57,183,227</b>	<b>(5,699,773)</b>	<b>91%</b>

<b>Surplus after capital transfer &amp; contribution</b>	<b>119,776,000</b>	<b>32,064,000</b>	<b>151,840,000</b>	<b>126,504,137</b>	<b>7,448,245</b>	
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<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>119,776,000</b>	<b>32,064,000</b>	<b>151,840,000</b>	<b>126,504,137</b>	<b>7,448,245</b>	
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## uBuhlebezwe Local Municipality

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

### Statement of Comparison of Budget and Actual Amounts

#### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Actual outcome as a %
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Figures in Rand

#### Details

Property rates

Service Charges

Interest Received

Government Grants and subsidies

Fines, penalties and forfeits

Personnel

Rental

#### Explanations

Budget was based on properties reflected on properties in the billing sytem and valuation roll as well as the comparisons from last year. New establishment, improvements and alterations were not accounted for as they were unknown.

Budget was increamental based on comparisons from last year. Investments monitored and sound financial management. High return received.

Budget was based on gazzeted figures/ allocations. Additional funding obtained during the year.

Budget based on past experiances

Budget based on last year figures and gazzeted increases.

Unforseen resignation could not be budgeted for..

Increased revenue based through leasing out of halls

# **uBuhlebezwe Local Municipality**

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. Accounting policies for material transaction, events or condition not covered by the GRAP report framework, have been developed in accordance with paragraph 8, 10 and 11 of GRAP 3 (Revised March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The Municipality resolved to early adopt the following GRAP standards which been issued but are not effective yet.

GRAP 20 - Related parties

GRAP 38 - Disclosure of interest in other Entities

GRAP 108 - Statutory Receivables

GRAP 109 - Accounting by Principals and Agents

GRAP 32 - Service Concession Arrangements

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. Financial values are rounded to the nearest one Rand. No foreign exchange transactions are included in the statements

#### **1.2 Going concern assumption**

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### **1.3 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include :

##### ***Post-retirement medical obligations and Long service awards***

The cost of post-retirement medical obligations, long service awards and ex-gratia gratuities are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions are used and disclosed in note 6 of the financial statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

##### ***Impairment of Receivables***

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

# **uBuhlebezwe Local Municipality**

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Annual Financial Statements for the year ended June 30, 2017

## **Accounting Policies**

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### **1.3 Significant judgements and sources of estimation uncertainty (continued)**

#### ***Property, Plant and Equipment***

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives of different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives and in what condition they will be at that time. Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar asset available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

#### ***Intangible Assets***

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. Management referred to the following when making assumptions regarding useful lives of intangible assets:

- Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets

#### ***Investment Property***

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time. Management referred to the following when making assumptions regarding useful life and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

#### ***Provisions and Contingent Liabilities***

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

#### ***Revenue Recognition***

Accounting Policy on Revenue from Non-Exchange Transactions and Accounting Policy on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality. In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions).

# **uBuhlebezwe Local Municipality**

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## **Accounting Policies**

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### **1.3 Significant judgements and sources of estimation uncertainty (continued)**

Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

#### ***Provision for Staff leave***

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

#### ***Componentisation of Infrastructure assets***

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

### **1.4 Materiality**

Material omissions or misstatement of items are material if they could, individually or collectively, influence the decision or assessments of user made on the basis of the financial statement. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure.

### **1.5 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

# **uBuhlebezwe Local Municipality**

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

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## **Accounting Policies**

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### **1.5 Investment property (continued)**

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Property held for sale in the ordinary course of operations or in the process of construction or development for such sale, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory.

#### **Subsequent Measurement**

Subsequent measurement to initial recognition, items of investment property are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an infinite useful life.

The annual depreciation rates are based on the following estimated useful lives

Item	Average useful life
Land	Infinite
Buildings	25 - 30

### **1.6 Property, plant and equipment**

#### **Initial Recognition**

Property, Plant and Equipment are tangible, non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably

Where an item of property, plant and equipment is acquired in exchange for a nonmonetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost).

If the acquired item's fair value is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

#### **Subsequent Measurement – Cost Model.**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits or service potential associated with the asset.

#### **Depreciation.**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives

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### 1.6 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	25 - 30
Finance Lease Assets	Straight line	3
Plant and Equipment	Straight line	10 -20
Furniture and office equipment	Straight line	5-15
Motor vehicles	Straight line	7
Computer equipment	Straight line	5-10
Infrastructure - Cemeteries	Straight line	15-30
Machinery and equipment	Straight line	5-15
Infrastructure - Electricity	Straight line	15 -30
Infrastructure - Road	Straight line	15 - 55
Infrastructure - Solid Waste Disposal	Straight line	10 - 55
Heritage Asset	Straight line	Infinite
Specialised vehicles	Straight line	10-20

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

#### De-recognition.

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying value and is the Statement of Financial Performance.

### 1.7 Intangible assets

#### Initial Recognition

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.



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### **1.7 Intangible assets (continued)**

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

#### **Subsequent Measurement – Cost Model.**

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

#### **Amortisation and Impairment**

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

<b>Item</b>	<b>Useful life</b>
Computer software, internally generated	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### **1.8 Heritage assets**

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

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### **1.8 Heritage assets (continued)**

The Municipality classifies assets as Heritage Assets where the significance as a heritage asset can be determined. In regards to land and buildings all graded sites are classified as a Heritage Assets, furthermore land with a natural significance is not componentised but seen as a single Heritage asset due to all parts contributing together to make up its significance

#### **Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably. Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non- exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

#### **Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### **Subsequent measurement**

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets (excluding Heritage assets which are land and buildings) are measured at cost, less accumulated impairment losses. Heritage assets are not depreciated.

Subsequent to initial recognition, land and buildings which qualify as Heritage Assets are carried at cost.

#### **De-recognition of heritage assets.**

The carrying amount of an item of heritage assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the de-recognition of an item of heritage assets is included in surplus or deficit when the item is derecognised. Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

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#### **1.9 Receivables**

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, Probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for and individually assessed financial assets, whether significant or not, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred)

The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decrease because of an event occurring after the impairment was recognised, the previously recognised impairment loss or increased or reduced by adjusting the allowance account. If a future write off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

#### **1.10 Payable and Annuity Loans**

##### **Payables and Annuity Loans**

Financial liabilities consist of payables and annuity loans. They are cauterised as financial liabilities held at amortised cost, and are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

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### **1.11 Cash and Cash Equivalents**

Cash includes cash on hand (including, petty cash) and cash with banks). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to a significant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts.

The Municipality categorise cash and cash equivalents as financial assets carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are exposed as incurred. Amounts owing in respect of the bank overdrafts are categorised as financial liabilities carried at amortised cost.

### **De-recognition of Financial Instruments**

#### **Financial Assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

a) The Municipality has transferred substantially all the risks and rewards of the asset, or

b) The Municipality has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset. Continuing involvement that takes the form of guarantee over the transferred asset is measured the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could require to repay. When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### **Financial Liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such as exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

### **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### **1.12 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions) and non-current investments.

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### **1.12 Financial Instruments (continued)**

#### **Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument plus, in the case of a financial asset or financial liability not at fair value, transactions costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

### **1.13 Tax**

#### **Taxes - Value Added Tax**

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position

### **1.14 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

### **1.15 Inventories**

#### **Initial Recognition**

Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also consist of raw materials, work in progress, consumables and finished goods, which are valued at the lower of cost, determined on the first in first out basis, and net realisable value, except for goods which are valued at the tariffs charged.

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### **1.15 Inventories (continued)**

Investment property is recognized as an asset when and only when:

- a) It is probable that the future economic benefits or service potential that are associated with the item will flow to the Municipality, and
- b) The cost of the inventories can be measured reliably.

#### **Measurement at Recognition**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition. Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

#### **Measurement After Recognition**

Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost and current replacement value. Cost of inventories comprises all costs of purchase, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Redundant and slow moving inventories are identified and written down to their estimated net realisable values. Consumables are written down according to their age, condition and utility. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **1.16 Impairment of non-cash-generating assets**

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### **1.16 Impairment of non-cash-generating assets (continued)**

#### **Cash-generating asset**

Cash-generating assets are assets held with the primary objective of generating a commercial return. The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount. In assessing whether there is any indication that an asset may be impaired, the municipality considers the following indications

##### **a) External sources of information.**

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, Economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

##### **b) Internal sources of information**

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the assets are considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognized in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or CGU's recoverable amount. A Previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Statement of Financial Performance.

#### **Non-cash-generating assets**

Non-cash-generating assets are assets other than cash –generating asset. The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired.

If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount. In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

##### **a) External sources of information**

- Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the

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### 1.16 Impairment of non-cash-generating assets (continued)

near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated. Cessation, or near cessation, of the demand or need for services provided by the asset.

- Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

#### *b) Internal sources of information*

- Evidence is available of physical damage of an asset.

- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.

- A decision to halt the construction of the asset before it is complete or in a usable condition

- Evidence is available from internal report that indicates that the service performance of an asset is or will be, significantly worse than expected. An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

**Depreciated replacement cost approach** - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

**Restoration cost approach** - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

**Service unit approach** - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state.

As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased.

If any such indication exists, the Municipality estimates the recoverable service amount of that asset. An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.



# **uBuhlebezwe Local Municipality**

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

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## **Accounting Policies**

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### **1.17 Employee benefits**

#### **Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### **Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The municipality and its employees contribute to the Natal Joint Municipal Pension Fund which is a defined contribution fund. The payment of retirement benefits are charged against income in the year they become payable. Natal Joint Superannuation & Retirement Funds are defined benefit funds. The Natal Joint Provident Fund is a contribution fund.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes.

### **1.18 Provisions and contingencies**

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made.

Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The Municipality does not recognise a contingent liability unless the probability of an outflow of resources embodying economic benefits or service potential is remote.

A contingent asset is disclosed where an inflow of economic benefits or service potential is probable. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

### **1.19 Commitments**

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

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## Accounting Policies

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### 1.19 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

#### *Commitments are disclosed for:*

Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.

Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure Notes to the Annual Financial Statement. Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources. Other commitments for contracts that are non-cancellable or only cancellable at significant cost, should relate to something other than.

### 1.20 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered or goods, sold the value of which approximates the consideration received or receivable.

Revenue from the sale of goods is recognised when all the following conditions are have been satisfied:

- The Municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods.
- The Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.
- At the time of initial recognition the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Interest revenue is recognised using the effective interest rate method. Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement. Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue is measured at the fair value of the consideration received or receivable. The amount of revenue arising on a transaction is usually determined by agreement between the Municipality and the purchaser or user of the asset or service.

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### **Accounting Policies**

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#### **1.20 Revenue from exchange transactions (continued)**

It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Municipality. In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalent is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

The imputed rate of interest is the most clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating;
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods and services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair values of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred, Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **1.21 Revenue from non-exchange transactions**

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

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### **Accounting Policies**

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#### **1.21 Revenue from non-exchange transactions (continued)**

##### **Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred, meet the criteria for recognition as an asset. A corresponding liability is recognised to the extent that the grant, transfer or donations is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without conditions attached are recognised as revenue when the asset is recognised.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received, but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expense of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. This policy is in line with prescribed debt principle as enforced by law.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipality Finance Management (Act No.56 of 2006) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

##### **Measurement**

Revenue from property rates is measured on accrual basis.

Revenue is measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

##### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Fines constitute both fines and summonses. Fines are economic benefits or service potential received or receivable by the municipality as a consequence of the individual or entity breaching the requirements of laws or regulations.

The full amount of traffic fines issued during the year is recognised at the initial transaction date as revenue in accordance with GRAP 1.

Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears based on historic trends.

#### **1.22 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

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### **Accounting Policies**

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#### **1.22 Comparative figures (continued)**

When the presentation or classification items in the financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. When material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

#### **1.23 Unauthorised expenditure**

Unauthorised expenditure means:

- Expenditure that has not been budgeted for or
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### **1.24 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### **1.25 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.26 Change in Accounting Policies, Estimates and correction of error**

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in the policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period which retrospective restatement is practicable.

Change in accounting estimates are applied prospectively in accordance with GRAP 3 requirements

Correction of errors is applied retrospectively in the period in which the error occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

#### **1.27 Budget information**

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amount are disclosed as a separate additional financial statement, namely Statement of comparison of budget and actuals amounts. Budget information is presented on the accrual basis and is based on the same period as the actual amount, i.e. 1 July 2015 to 30 June 2016. The budget information is therefore on a comparable basis to the actual amount.

The comparable information includes the following:

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### **Accounting Policies**

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#### **1.27 Budget Information (continued)**

- The approved and final budget amounts.
- Actual amounts and final budget amounts.

Explanations for differences between the approved and final budget are included in the Statement of Comparison of Budget and Actual Amounts.

Explanation for material differences between the final budget amount and actual amounts are included the Statement of Comparison of Budget and Actual Amounts.

#### **1.28 Related parties**

The municipality resolved to adopt the disclosure requirements as per GRAP 20- "Related Party Disclosures".

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

#### **1.29 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

#### **1.30 Unspent Conditional Grants and receipts**

Revenue received from conditional grants and funding is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

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## Notes to the Annual Financial Statements

Figures in Rand

### 2. Investment property

	2017		2016			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Cost / Valuation	Accumulated Carrying value depreciation and accumulated impairment		
Investment property	21,329,532	(964,936)	20,364,596	21,133,651	(754,616)	20,379,035

### Reconciliation of investment property - 2017

	Opening balance	Additions	Depreciation	Total
Investment property	20,379,035	195,882	(210,321)	20,364,596

### Reconciliation of investment property - 2016

	Opening balance	Additions	Depreciation	Total
Investment property	20,300,483	294,667	(216,115)	20,379,035

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

URUKHLEBEZWE MUNICIPALITY  
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**3. Reconciliation of property, plant and equipment - 2017**

	Buildings	Infrastructure Assets	Community Assets	Specialised Vehicles	Furniture & Equipment	Computer Equipment	Plant & Equipment	Vehicles	Leases	Other Assets	TOTAL OTHER ASSETS	Total
Carrying Amount at 30 June 2016	17,234,310.82	84,335,506.72	84,336,868.83	4,385,546.39	4,081,048.99	1,001,642.54	2,439,571.80	3,833,232.45	58,044.45	177,618.83	481,272,223.12	294,394,576.44
Cost	28,302,230.82	228,955,708.48	123,893,180.69	6,209,517.72	7,183,915.42	2,759,108.72	4,184,621.57	6,839,500.70	1,490,412.00	527,509.00	564,380,019.14	565,878,431.14
Accumulated depreciation and impairment losses	-11,068,917.00	-142,720,201.74	-39,356,312.86	-1,843,971.43	-3,102,866.43	-1,757,466.18	-2,745,049.77	-3,006,268.25	-1,432,267.54	-349,292.17	-13,107,796.02	-200,579,854.60
Cost Previously not recognised												
Accumulated depreciation not previously accounted for and / or incorrectly accounted for												
Restated Carrying Value as at 1 July 2016	17,234,310.82	84,335,506.72	84,336,868.83	4,385,546.39	4,081,048.99	1,001,642.54	2,439,571.80	3,833,232.45	58,044.45	177,618.83	481,272,223.12	294,394,576.44
Restated Cost	28,302,230.82	228,955,708.48	123,893,180.69	6,209,517.72	7,183,915.42	2,759,108.72	4,184,621.57	6,839,500.70	1,490,412.00	527,509.00	564,380,019.14	565,878,431.14
Restated Accumulated depreciation and impairment losses	-11,068,917.00	-142,720,201.74	-39,356,312.86	-1,843,971.43	-3,102,866.43	-1,757,466.18	-2,745,049.77	-3,006,268.25	-1,432,267.54	-349,292.17	-13,107,796.02	-200,579,854.60
Current Year Movements												
Acquisitions	8,291,305.03	7,518,177.33	331,050.74	1,060,297.40	258,018.20	258,018.20	850,999.28	1,326,633.82		63,000.00	3,887,490.54	19,878,972.90
Work in Progress												
Disposals												
Transfers	5,679,175.60	4,970,312.29										
Depreciation	(934,768.27)	(10,726,443.29)	(4,478,100.72)	(813,267.46)	(1,156,366.41)	(136,278.12)	(422,308.68)	(1,055,818.57)	(58,044.45)	(110,330.63)	(3,649,602.87)	(19,887,695.24)
Work in Progress	4,312,845	13,718,202	9,453,696.48									27,182,743.18
Carrying value of disposals												
Cost/valuation												
Accumulated depreciation and impairment losses												
Carrying value of write off												
Cost/valuation												
Accumulated depreciation and impairment losses												
Carrying Amount at 30 June 2017	26,616,434.34	181,155,745.78	101,540,700.40	4,083,199.57	3,925,417.77	902,874.40	2,416,758.07	3,106,232.46	28.43	158,236.28	11,492,773.87	240,993,175.85
Cost	33,815,221.71	256,942,400.81	144,308,070.79	8,240,538.40	7,951,114.43	2,891,784.47	4,316,729.81	7,323,177.64	28.43	812,509.00	30,443,273.81	444,013,765.53
Accumulated depreciation and impairment losses	-12,000,684.37	-155,416,725.13	-42,227,670.39	-3,457,338.89	-4,025,696.66	-1,988,909.87	-2,503,370.54	-4,415,535.18	-	-453,872.80	-15,942,499.74	-223,918,548.63

No assets of the municipality have been ended.  
Municipal Assets with a closing Cost of R1 844 182.48 were carried at zero book value as at 30 June 2017



**UBUHLEBEZWE MUNICIPALITY**  
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**3. Reconciliation of Work-In-Progress - 2017**

	Included within Infrastructure	Included within Community	Included within PPE	Total
Opening Balance	11,586,136.42	4,979,840.29	3,914,759.29	20,480,736.00
Additional /Capital expenditure	9,557,662.46	9,163,596.48	398,225.60	19,119,484.54
Transferred to completed items	(5,679,176.00)	(4,979,840.29)		(10,659,016.29)
Transferred/ donated	(1,748,421.06)			(1,748,421.06)
	33,716,201.82	9,163,596.48	4,312,984.89	27,192,783.19

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### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Buildings	18,064,751	108,900	-	-	(937,329)	17,236,322
Plant and machinery	1,928,655	424,455	-	-	(322,578)	2,030,532
Furniture and fixtures	2,252,924	2,665,871	-	-	(867,819)	4,050,976
Motor vehicles	3,377,633	693,655	-	-	(1,038,054)	3,033,234
IT equipment	1,339,369	32,890	-	-	(370,614)	1,001,645
Infrastructure	85,585,051	8,082,551	(172,229)	2,645,889	(9,906,854)	86,235,508
Community	74,880,475	6,740,250	-	7,134,552	(4,218,408)	84,536,888
Other property, plant and equipment	292,895	-	-	-	(115,278)	177,617
Lease	214,292	-	-	-	(156,221)	58,071
Specialised vehicles	4,827,425	131,440	-	-	(593,318)	4,365,547
Work in Progress	16,819,780	16,591,503	(3,149,018)	(9,781,540)	-	20,480,735
	209,583,260	35,471,515	(3,321,247)	1	(18,626,474)	223,207,055

#### Other information

\*No assets of the municipality have been ceded. Municipal Assets with a closing Cost of R1 944 162.49 were carried at zero book value as at 30 June 2017.

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## Notes to the Annual Financial Statements

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### 4. Intangible assets

	2017		2016	
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Cost / Valuation	Accumulated amortisation and accumulated impairment
Computer software, other	881,020	-	881,020	-
			881,020	881,020

### Reconciliation of intangible assets - 2017

	Opening balance	Total
Computer software, other	881,020	881,020

### Reconciliation of intangible assets - 2016

	Opening balance	Total
Computer software, other	881,020	881,020

### 5. Heritage assets

	2017		2016	
	Cost / Valuation	Accumulated Impairment losses	Cost / Valuation	Accumulated Impairment losses
Historical monuments	4,808,819	-	4,808,819	-
			4,791,660	4,791,660

### Reconciliation of heritage assets 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Heritage assets (continued)

#### Historical monuments

Opening balance	Additions	Total
4,791,660	17,159	4,808,819

#### Reconciliation of heritage assets 2016

#### Historical monuments

Opening balance	Total
4,791,660	4,791,660

# **uBuhlebezwe Local Municipality**

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## **Notes to the Annual Financial Statements**

Figures in Rand	2017	2016
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### **6. Employee benefit obligations**

#### **Long service awards**

Independent valuers, Zagen Actuaries (Pty) Ltd, carried out a statutory valuation as at 30 June 2017.

The actuarial valuation determined that the retirement plan was in a sound financial position.

#### **Post retirement benefit plan**

The Municipality's personnel are members of one of the Natal Joint Municipal Pension retirement funds, namely the Superannuation, Retirement and Provident Funds. As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined. Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans.

#### **Post retirement medical aid plan**

The municipality operates on 3 accredited medical aid schemes, namely Bonitas, Keyhealth, and Samwumed. Pensioners continue on the option they belonged to on the day of their retirement. Independent valuers, Zagen Actuaries (Pty) Ltd, carried out a statutory valuation as at 30 June 2017. The post-retirement medical obligations at 30 June 2017 quantified the present value of unfunded obligations at R4,738,000. The Current-service costs for the year ending 30 June 2016 is estimated at R283 000. The principal actuarial assumptions used included a discount rate of Yield Curve, and a health care cost inflation rate of CPI + 1.

**Long service : The amounts recognised in the statement of financial position are as follows:**

Carrying value		
Fair value of plan assets	1,962,000	1,832,000
Asset not recognised	(130,000)	(128,000)
	-	-

**Long Service : Movements in the defined benefit obligation is as follows:**

Balance at the beginning of the year	1,832,000	1,704,000
Current service cost	276,000	230,000
Interest cost	154,000	112,000
Benefits paid	(31,000)	(123,000)
Actuarial gains/losses	(269,000)	(91,000)
Balance at end of the year	1,962,000	1,832,000

## uBuhlebezwe Local Municipality

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### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>6. Employee benefit obligations (continued)</b>		
<b>Long Service Awards</b>		
The principal actuarial assumptions were used as follows : Examples of mortality rates used are as follows : Average retirement age Members withdrawal from services are as follows : Age Band	63.00 % Male:	63.00 % Females
20 - 24	16.00 %	24.00 %
25 - 29	12.00 %	18.00 %
30 - 34	10.00 %	15.00 %
35 - 39	8.00 %	10.00 %
40 - 44	6.00 %	6.00 %
45 - 49	4.00 %	4.00 %
50 - 59	2.00 %	2.00 %
55 - 59	1.00 %	1.00 %
	-	-
<b>Changes in the present value of the defined benefit obligation are as follows:</b>		
Opening balance	5,749,000	-
Net expense recognised in the statement of financial performance	6,700,000	5,749,000
	<b>12,449,000</b>	<b>5,749,000</b>
<b>Statement of Financial Position obligation for :</b>		
Post employment medical benefit	4,738,000	3,917,000
Long service awards	1,962,000	1,832,000
	<b>6,700,000</b>	<b>5,749,000</b>
<b>Statement of Financial performance obligation for</b>		
Post employment medical benefit loss	326,858	123,000
Long service award (gain)/ loss	(269,000)	86,000
	<b>57,858</b>	<b>209,000</b>
<b>Long service : The amounts recognised in the Statement of Financial Performance were as follows:</b>		
Current Cost	276,000	230,000
Actuarial gains (losses)	(269,000)	(91,000)
Interest Cost	154,000	112,000
Benefits paid	(31,000)	(123,000)
	<b>130,000</b>	<b>128,000</b>

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Figures in Rand	2017	2016
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### 6. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	Yield curve	Yield curve
Expected increase in healthcare costs	CPI + 1	CPI + 1
Net discount effective discount rate	Yield curve based	Yield curve based
Average retirement age	63	63
Proportion continuing membership at retirement	100.00 %	100.00 %
Proportion of retiring members who are married	90.00 %	90.00 %
Mortality during employment	85	85
Mortality post retirement	90	90

No explicit assumption was made about additional mortality or health care costs due to the HIV/AIDS

#### Long service awards

The principal actuarial assumptions used were as follows :	Males	Females
Discount rate per annum	-	-
General Salary Inflation ( Long service )	8	8
Net effect discount rate	6	6
Examples of mortality rates used were as follows :	1	1
Average retirement age	-	-
	63	63

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Figures in Rand	2017	2016
<b>7. Inventories</b>		
Opening Inventory	3,159,123	3,671,140
Sales	(626,140)	(512,018)
	<b>2,532,983</b>	<b>3,159,122</b>
<b>8. VAT receivable</b>		
VAT	-	34,884
VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtor		
<b>9. Trade receivable from exchange transaction &amp; non exchange transaction</b>		
<b>Gross balances</b>		
Rates	25,709,308	21,641,492
Electricity	7,545	7,545
Loans & Self help	197,035	204,284
Refuse	3,330,121	3,146,878
Fines	397,467	359,335
Vat Debtors	569,959	516,755
Housing rental	1,022,389	744,722
Sundry	384,405	304,476
	<b>31,618,229</b>	<b>26,925,487</b>
<b>Less: Allowance for impairment</b>		
Less : provision for bad debt	(17,639,565)	(15,718,090)
Business service levies	397,467	359,335
<b>Net balance</b>		
Rates	25,709,308	21,641,492 ✓
Electricity	7,545	7,545 ✓
Loans & self help	197,035	204,284 ✓
Refuse	3,330,121	3,146,878 ✓
Fines	397,467	359,335 ✓
Vat Debtors	569,959	516,755 ✓
Housing rental	1,022,389	744,722 ✓
Sundry	384,405	304,476 ✓
Less: Provision for bad debt	(17,639,565)	(15,718,090)
	<b>13,978,664</b>	<b>11,207,397</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	7,545	7,545
Loans & Self help	197,035	204,284
Sundry	758,220	304,476
Refuse	3,330,121	3,146,878
VAT Debtors	569,959	516,755
Housing rental	1,022,389	744,722
	<b>5,885,269</b>	<b>4,924,660</b>



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### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>9. Trade receivable from exchange transaction &amp; non exchange transaction (continued)</b>		
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	27,667,896	21,641,492
Other (specify)	397,467	359,335
	<b>28,065,363</b>	<b>22,000,827</b>
<b>Net balance</b>	<b>33,950,632</b>	<b>26,925,487</b>
<b>Rates</b>		
Current (0 -30 days)	9,192	(2,188)
31 - 60 days	439,466	498,044
61 - 90 days	561,032	460,115
91 - 120 days	449,938	422,347
Greater than 120 days	24,249,680	20,263,174
	<b>25,709,308</b>	<b>21,641,492</b>
<b>Electricity</b>		
Greater than 120 days	7,545	7,545
<b>Loans &amp; self help</b>		
Greater than 120 days	197,035	204,284
<b>Refuse</b>		
Current (0 -30 days)	147,200	159,445
31 - 60 days	124,514	188,329
61 - 90 days	103,965	80,568
91 - 120 days	92,309	72,273
Greater than 120 days	2,862,133	2,646,263
	<b>3,330,121</b>	<b>3,146,878</b>
<b>Sundry</b>		
Current (0 -30 days)	38,251	30,753
31 - 60 days	200,251	21,312
61 - 90 days	19,729	16,158
91 - 120 days	84,075	80,007
121 - 365 days	294,381	21,031
> 365 days	121,533	135,215
	<b>758,220</b>	<b>304,476</b>
<b>VAT Debtors</b>		
Current (0 -30 days)	49,358	24,546
31 - 60 days	33,034	16,060
61 - 90 days	27,783	14,122
91 - 120 days	33,417	22,793
Greater than 120 days	426,367	439,234
	<b>569,959</b>	<b>516,755</b>

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### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>9. Trade receivable from exchange transaction &amp; non exchange transaction (continued)</b>		
Housing rental		
Current (0 -30 days)	54,893	54,893
31 - 60 days	60,738	60,738
61 - 90 days	25,424	25,424
91 - 120 days	22,002	22,002
Greater than 120 days	859,332	581,665
	<b>1,022,389</b>	<b>744,722</b>
Reconciliation of doubtful debt		
Balance at beginning of the year	(15,718,090)	(12,781,032)
Contributions to allowance	(1,921,475)	(2,937,058)
	<b>(17,639,565)</b>	<b>(15,718,090)</b>
<b>10. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	5,249	5,249
Bank balances	6,390,977	11,356,655
Short-term deposits	111,904,376	91,867,859
	<b>118,300,602</b>	<b>103,229,763</b>

# uBuhlebezwe Local Municipality

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Trading as uBuhlebezwe Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand

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2016

### 10. Consumer debtors disclosure (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2017	June 30, 2016	June 30, 2015
FNB - Current Account - 52552416194	6,396,226	11,361,934	3,211,908	6,396,226	11,361,934	3,211,908
FNB - Equitable Share - 62143895988	650,336	5,401,006	207,163	650,336	5,401,006	207,163
FNB - Equitable Share - 74617848129	10,729,139	-	-	10,729,139	-	-
FNB - Equitable Share - 62248166218	(9,147,188)	613,504	592,381	(9,147,188)	613,504	592,381
FNB - 7 Day Call Short Term Investment Account -	282,546	5,013,041	-	282,546	5,013,041	-
FNB - Lums - 62074735831	15,253,356	15,253,356	-	15,253,356	15,253,356	-
FNB Investment account	38,346	-	-	38,346	-	-
FNB Investment	555,254	-	-	555,254	-	-
FNB Investment account	10,778,890	-	-	10,778,890	-	-
FNB - Equitable	10,288,805	-	-	10,288,805	-	-
ABSA - Small Town Rehab/3 months fixed deposit - 2074566678	-	5,624,830	5,207,759	-	5,624,830	5,207,759
ABSA - Small Town Rehab/3 months fixed deposit - 2074567242	12,034,457	11,303,000	10,471,117	12,034,457	11,303,000	10,471,117
ABSA - 2075702582	-	5,180,654	-	-	5,180,654	-
ABSA - Small Town Rehab/3 months fixed deposit - 2075113660	11,632,881	10,852,132	10,000,000	11,632,881	10,852,132	10,000,000
Nedbank - Fixed Deposit 1 month - 7881076763/001	197,266	-	-	197,266	-	-
Nedbank - Fixed Deposit 3 month - 7881076763/101	5,477,350	-	-	5,477,350	-	-
Nedbank - Fixed Deposit 1 month - 7881076763/0069	-	-	10,307,804	-	-	10,307,804
Nedbank - Fixed Deposit 1 month - 7881076763/018	5,000,000	-	-	5,000,000	-	-
Standard Bank - 90 Days Equitable Share - 0687302760-004	(10,231,644)	-	29	(10,231,644)	-	29
Standard Bank - 90 Days Equitable Share - 0687302760-007	10,011,381	11,219	5,568,451	10,011,381	11,219	5,568,451
Standard Bank - 068730276 005	12,508,568	11,561,919	-	12,508,568	11,561,919	-
Standard Bank - 30 Days Equitable Share - 0687302760-005	-	-	10,765,896	-	-	10,765,896
Standard Bank - R6M	10,245,482	10,245,482	-	10,245,482	10,245,482	-
Ithala Bank - Equitable Share - 46142189	131,433	5,745,480	5,384,085	131,433	5,745,480	5,384,085
Ithala Bank - Equitable Share	5,062,206	5,062,206	10,100,202	5,062,206	5,062,206	10,100,202
Ithala Bank - Equitable Share - 46149515	-	-	10,152,877	-	-	10,152,877
INVESTEC-50011092081	10,405,513	-	-	10,405,513	-	-
<b>Total</b>	<b>118,300,603</b>	<b>103,229,763</b>	<b>81,969,672</b>	<b>118,300,603</b>	<b>103,229,763</b>	<b>81,969,672</b>

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### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>11. Long-term Receivables</b>		
Housing selling scheme loans	122,298	122,298
Less: Provision for bad debts	(122,298)	(122,298)
	-	-
<b>12. Housing operating account</b>		
Housing Operating Account	373,787	373,787
The housing operating account is represented by the following assets and liabilities		
Housing selling scheme loans	122,298	122,298
Cash and cash equivalents	251,489	251,489
<b>Assets</b>	<b>373,787</b>	<b>373,787</b>
<b>Total Housing Development Fund Assets and Liabilities</b>	<b>373,787</b>	<b>373,787</b>
<b>13. Finance lease liability</b>		
Minimum lease payments due		
- within one year	-	62,932
Present value of minimum lease payments due		
- within one year	-	62,932
Finance lease payments represent payments payable by the municipality for photocopiers and printers.		
No finance lease period is more than five years. All finance leases have signed contracts with the service providers.		
<b>14. Unspent conditional grants and receipts</b>		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Mckenzie Farm	428,422	480,796
Electrification : DOE	1	-
Small Town Rehabilitation	2,958,042	8,567,585
Ixopo Sportfields	8,278	8,278
Sangcwaba Grant	565,387	565,387
Ixopo Sportfield Maintenance	143,182	143,182
	<b>4,103,312</b>	<b>9,765,228</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>15. Trade and other payables from exchange transactions</b>		
Trade payables	5,258,643	10,879,299
Payments received in advance	1,185,415	1,688,465
Deposits other	444,589	427,889
Other payables	1,101	(1,299)
Retention	8,514,273	8,738,636
Staff Leave Accrual	3,651,080	3,089,200
	<b>19,055,101</b>	<b>24,822,190</b>
<b>16. Revenue</b>		
Service charges	1,726,005	1,681,650
Rental of facilities	1,173,223	985,191
Licences and permits	3,304,893	3,597,454
Other income - Miscellaneous	1,744,644	1,798,929
Interest received - investment	9,215,250	6,872,906
Property rates	13,122,243	13,123,930
Other taxation revenue 1	4,230,683	-
Government grants	124,757,917	118,839,056
Fines	1,579,580	1,489,350
	<b>160,854,438</b>	<b>148,388,466</b>
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1,726,005	1,681,650
Rental of facilities and equipment	1,173,223	985,191
Licences and permits	3,304,893	3,597,454
Other income - Miscellaneous	1,744,644	1,798,929
Interest received - investment	9,215,250	6,872,906
	<b>17,164,015</b>	<b>14,936,130</b>
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	13,122,243	13,123,930
Other taxation revenue 1	4,230,683	-
Transfer revenue		
Government grants	124,757,917	118,839,056
Fines	1,579,580	1,489,350
	<b>143,690,423</b>	<b>133,452,336</b>
<b>17. Service charges</b>		
Refuse removal	1,726,005	1,681,650
<b>18. Rental of facilities and equipment</b>		
Premises		
Venue hire	140,394	101,924
Rental of Buildings	1,032,829	883,267
	<b>1,173,223</b>	<b>985,191</b>
	<b>1,173,223</b>	<b>985,191</b>

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### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>19. Other income</b>		
Rates Clearance	1,968	9,107
Sale of assets	1,068	-
Sundry income	695,872	802,960
Admin Fees	59,899	41,035
Disposal of land	18,009	11,675
Skills development	132,680	95,905
Building fees	23,742	20,760
Sundry Income	3,200	3,933
Basic Charge : Fire service	36,061	36,338
Licence Commission	714,848	752,061
Burial Fees	48,312	25,155
Discount received	263	-
Library photostats	8,722	-
	<b>1,744,644</b>	<b>1,798,929</b>
<b>20. Investment revenue</b>		
Interest revenue		
Short term investments	9,215,250	6,872,906
Bank current account	-	-
	<b>9,215,250</b>	<b>6,872,906</b>

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Figures in Rand	2017	2016
<b>21. Property rates</b>		
<b>Rates received</b>		
Property rates	21,447,108	20,910,542
Less: Income forgone	(8,324,865)	(7,786,612)
Property rates - penalties imposed	-	-
	<b>13,122,243</b>	<b>13,123,930</b>
<b>Valuations</b>		
Residential	223,094,000	223,094,000
Commercial	258,459,000	258,459,000
Industrial	22,050,000	22,050,000
Municipal	56,871,000	56,871,000
Agricultural	1,801,095,000	1,801,095,000
Vacant Land	25,900,000	25,900,000
Farm : Residential	4,691,000	4,691,000
Smallholdings : Agricultural	2,525,000	2,525,000
Smallholdings : Commercial	6,526,000	6,526,000
Ingonyama Trust	267,314,000	267,314,000
Commercial Settlement	12,245,000	12,245,000
	<b>2,680,770,000</b>	<b>2,680,770,000</b>

Valuations on land and buildings are performed every 5 years. In terms of the new MPRA legislation an extension of 1 year has been granted. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alteration and subdivisions. Rates are levied in ten monthly equal instalments with the first being due at the end of August and the last instalments in May. The May instalment is due at the end of June.

	<u>2017</u>	<u>2016</u>
Residential	0.0141c/R	0.0141c/R
State owned	0.0145c/R	0.0145c/R
Agriculture	0.0035c/R	0.035c/R
Infrastructure	0.0035c/R	0.0035c/R
Communal land	0.0035c/R	0.0035c/R
Commercial	0.0145c/R	0.0145c/R
Industrial	0.0152c/R	0.0152c/R
Place of worship	Exempt	Exempt

The municipality does not levy rates on the first R15 000 of the market value of properties assigned to the categories below:

Residential  
Agricultural  
Small holding (Agricultural)  
Commercial  
Industrial and  
Communal

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>22. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	90,491,000	85,227,000
FMG	1,825,000	1,800,000
Project Consolidate (MSIG)	-	930,000
Library Assistant - Cyber	179,000	170,000
Library Grant	559,000	578,225
Sportsfield Maintenance	-	121,071
EPWP	1,985,000	1,420,000
	<b>95,039,000</b>	<b>90,246,296</b>
<b>Capital grants</b>		
MIG	24,057,000	24,335,000
McKenzie Farm	52,374	-
Small town rehabilitation	5,609,543	4,257,760
	<b>29,718,917</b>	<b>28,592,760</b>
	<b>124,757,917</b>	<b>118,839,056</b>
<b>Equitable Share</b>		
Current-year receipts	90,491,000	85,227,000
Conditions met - transferred to revenue	(90,491,000)	(85,227,000)
	-	-
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
<b>Mc Kenzie Farm</b>		
Balance unspent at beginning of year	480,796	480,796
Conditions met - transferred to revenue	(52,374)	-
	<b>428,422</b>	<b>480,796</b>
Conditions still to be met - remain liabilities (see note 14).		
<b>FMG Grant</b>		
Current-year receipts	1,825,000	1,800,000
Conditions met - transferred to revenue	(1,825,000)	(1,800,000)
	-	-
<b>Electrification Grant - Cogta</b>		
Current-year receipts	-	24,956,000
Conditions met - transferred to revenue	-	(24,956,000)
	-	-
<b>Electrification Grant - DOE</b>		
Current-year receipts	30,000,000	30,000,000
Conditions met - transferred to revenue	(29,999,999)	(30,000,000)
	1	-



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### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>22. Government grants and subsidies (continued)</b>		
<b>Municipal Infrastructure Grant</b>		
Current-year receipts	24,057,000	24,335,000
Conditions met - transferred to revenue	(24,057,000)	(24,335,000)
	-	-
<b>Library Grant</b>		
Balance unspent at beginning of year	-	25,225
Current-year receipts	559,000	553,000
Conditions met - transferred to revenue	(559,000)	(578,225)
	-	-
<b>Small Town Rehab _ Roads</b>		
Balance unspent at beginning of year	8,567,585	12,825,345
Conditions met - transferred to revenue	(5,609,543)	(4,257,760)
	2,958,042	8,567,585
Conditions still to be met - remain liabilities (see note 14).		
<b>MSIG Grant</b>		
Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(930,000)
	-	-
<b>Ixopo sports maintenance Grant</b>		
Balance unspent at beginning of year	8,278	129,350
Conditions met - transferred to revenue	-	(121,072)
	8,278	8,278
Conditions still to be met - remain liabilities (see note 14).		
<b>Sangcwaba Grant</b>		
Balance unspent at beginning of year	565,387	565,387
<b>EPWP Grant</b>		
Current-year receipts	1,985,000	1,420,000
Conditions met - transferred to revenue	(1,985,000)	(1,420,000)
	-	-
<b>Ixopo Sportsfield Grant</b>		
Balance unspent at beginning of year	143,182	143,182
Conditions still to be met - remain liabilities (see note 14).		

## uBuhlebezwe Local Municipality

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>22. Government grants and subsidies (continued)</b>		
Library Assistant		
Current-year receipts	179,000	170,000
Conditions met - transferred to revenue	(179,000)	(170,000)
	-	-

## uBuhlebezwe Local Municipality

(Registration number KZN 434)

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### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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#### 23. Employee related costs

Employee cost : Salaries & wages	36,825,557	34,474,762
Workmans compensation	544,338	249,697
Medical aid - company contributions	2,250,577	1,996,776
UIF	368,937	297,342
Pension	5,916,559	5,437,234
Travel, motor car, accommodation, subsistence and other allowances	1,971,443	2,077,153
Overtime payments	1,366,973	1,177,992
Long-service awards	8,709	-
13th Cheques	903,634	880,993
Housing benefits and allowances	34,132	23,864
Other employee related costs	2,651,585	2,413,641
	<b>52,842,444</b>	<b>49,029,454</b>

#### Remuneration of municipal manager

Annual Remuneration	1,004,731	941,526
Performance Bonuses	170,297	160,657
Contributions to UIF, Medical and Pension Funds	132,674	124,506
Travel, motor car, accommodation, subsistence and other allowances	141,969	146,113
	<b>1,449,671</b>	<b>1,372,802</b>

#### Remuneration of chief finance officer

Annual Remuneration	680,540	720,225
Performance Bonuses	124,020	126,000
Contributions to UIF, Medical and Pension Funds	78,454	72,507
Travel, motor car, accommodation, subsistence and other allowances	142,848	194,222
	<b>1,025,862</b>	<b>1,112,954</b>

The Chief Financial officer resigned on the 30th April 2017.

#### Corporate and human resources (corporate services)

Annual Remuneration	803,461	752,623
Performance Bonuses	125,482	118,379
Contributions to UIF, Medical and Pension Funds	12,126	11,542
Travel, motor car, accommodation, subsistence and other allowances	120,865	120,390
	<b>1,061,934</b>	<b>1,002,934</b>

#### Social Development

Annual Remuneration	252,971	675,476
Performance Bonuses	-	76,101
Contributions to UIF, Medical and Pension Funds	3,529	10,883
Travel, motor car, accommodation, subsistence and other allowances	47,030	193,797
	<b>303,530</b>	<b>956,257</b>

Social Development Director resigned on the 10th of October 2016.

#### Procurements and Infrastructure (Technical Services)

Annual Remuneration	800,299	720,225
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## uBuhlebezwe Local Municipality

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Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>23. Employee related costs (continued)</b>		
Performance Bonuses	89,630	126,000
Contributions to UIF, Medical and Pension Funds	11,544	72,507
Travel, motor car, accommodation, subsistence and other allowances	98,634	194,222
	<b>1,000,107</b>	<b>1,112,954</b>
<b>24. Remuneration of councillors</b>		
Executive Mayor	763,394	789,547
Deputy Executive Mayor	619,461	636,171
Exco Members	3,462,095	2,944,655
Speaker	354,604	363,657
Councillors Skills Levy	72,610	63,398
Councillors Allowances	2,446,713	2,177,543
Cellular Allowance	563,925	493,876
Councillors Data Cards	96,000	85,200
	<b>8,378,802</b>	<b>7,554,047</b>
<b>25. Repairs and maintainance</b>		
Office equipment	81,148	48,369
Fire extinguishers	19,375	12,383
Plant and equipment	429,204	608,486
Roads	813,937	631,494
Street lights	135,778	102,156
Buildings	876,449	1,055,266
Vehicles	527,006	471,904
	<b>2,882,897</b>	<b>2,930,058</b>
Repairs and maintainance relates to general maintainance of cars, minor repairs to Infrastructure assets, community assets and buildings		
<b>26. Depreciation and amortisation</b>		
Property, plant and equipment	19,889,581	18,526,846
Investment property	225,280	216,115
	<b>20,114,861</b>	<b>18,742,961</b>
<b>27. Impairment</b>		
<b>Impairment of assets</b>		
Property, plant and equipment	57,809	-
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]		
<b>Impairment loss recognised on Traffic fines</b>		
The amount of the impairment loss on traffic fines is recognised, as follows:		
Traffic Fines	1,364,866	1,097,324

## **uBuhlebezwe Local Municipality**

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

### **Notes to the Annual Financial Statements**

<b>Figures in Rand</b>	<b>2017</b>	<b>2016</b>
<b>28. Contribution to provision</b>		
Provision to leave	2,024,791	1,751,759
Provision for Bad debts	1,921,476	2,937,058
	<b>3,946,267</b>	<b>4,688,817</b>
<b>29. Contracted services</b>		
Consultancy Fees	1,166,979	903,423
Security	2,720,463	2,189,481
Insurance	468,081	404,049
Rental Hardware	1,521,697	641,691
Other Contractors	887,519	1,621,087
	<b>6,764,739</b>	<b>5,759,731</b>

# uBuhlebezwe Local Municipality

(Registration number KZN 434)

Trading as uBuhlebezwe Local Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>30. General expenses</b>		
Msoa Implementation	196,222	17,835
Advertising	709,620	658,516
Arts and culture	217,959	189,220
Arts promotion expenses	292,964	341,080
Auditors remuneration	1,218,130	1,302,043
Bank charges	127,405	133,356
Bursary - Staff	31,776	107,020
Bursary - Youth	599,990	467,207
Cleaning	160,774	151,415
Commission on Traffic fines	387,179	-
Computer & IT expenses	861,486	1,061,637
Consumables	154,531	199,135
Disaster Management: Back to school	370,991	318,473
Electricity	493,684	365,373
Employment creation and assistant programme	2,069,192	1,268,302
Entertainment	102,262	45,886
Free Basic Services	1,295,791	1,343,561
Fuel and oil	1,649,539	1,176,446
Gender Development & community upliftment	222,489	360,292
Grant in aid	7,074	3,959
HIV/AIDS Awareness	215,431	101,968
Plant hire	1,500	-
Horticulture	26,810	188,543
IDP Budget review	106,487	50,273
Job Evaluation	5,578	-
LED Projects	894,801	1,011,974
Legal fees	786,280	1,278,290
Traffic Levies	9,206	9,293
Library outreach programme	11,699	20,015
Licence and permits	207,360	216,996
Magazines, books and periodicals	111,070	-
Moral regeneration	34,860	101,178
Other expenses	70,765	424,006
Pest control	6,359	8,104
Postage and courier	91,518	82,356
Printing and stationery	727,651	694,090
Public Participation	167,779	701,257
Refuse Expenses	462,100	555,818
Software expenses	49,341	81,185
Special Programmes	979,979	998,695
Sports and recreation	460,307	388,262
Strategic Planning	1,242,442	809,286
Subscriptions and membership fees	732,503	529,966
Team Building	96,030	78,248
Tourism development	26,076	20,440
Town Planning Initiative	663,993	524,478
Training	1,506,508	1,826,757
Travel - local ( S&T , Reimbursive travel)	1,546,165	1,760,175
Uniforms/ Protective Clothing	471,008	551,681
Valuation Roll	409,415	8,103
Ward Committees	700,683	185,178
Water	42,505	87,854
Youth Upliftment	195,152	198,322
	<b>24,228,419</b>	<b>23,003,547</b>

# uBuhlebezwe Local Municipality

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Trading as uBuhlebezwe Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>31. Cash generated from operations</b>		
Surplus	37,544,020	32,207,443
Adjustments for:		
Depreciation and amortisation	20,114,861	18,742,961
Transfer of assets	1,776,891	3,149,018
Interest Received	(9,215,250)	(6,872,906)
Impairment deficit	57,809	-
Provisions	3,946,267	4,688,817
Movements in retirement benefit assets and liabilities	(951,000)	209,000
Other non-cash items	34,132,736	44,918,198
Changes in working capital:		
Inventories	(626,550)	512,018
Trade receivables from exchange transactions	(960,609)	(2,669,232)
Other receivables from non-exchange transactions	(1,810,658)	908,889
Prepayment	(62,932)	(212,191)
Trade and other payables from exchange transactions	(6,609,573)	10,533,205
VAT	(3,031,971)	4,786,621
Unspent conditional grants and receipts	(5,661,916)	(4,404,057)
	<b>68,642,125</b>	<b>106,497,784</b>

## 32. Financial instruments disclosure

### Categories of financial instruments

#### 2017

##### Financial Assets

	Loans and receivables	Total
Trade and other receivables from exchange transactions	5,885,269	5,885,269
Other receivables from non-exchange transactions	8,093,395	8,093,395
Cash and cash equivalents	118,300,602	118,300,602
Inventories	2,532,983	2,532,983
	<b>134,812,249</b>	<b>134,812,249</b>

##### Financial liabilities

	Financial liabilities	Total
Post retirement benefits	6,700,000	6,700,000
Trade and other payables from exchange transactions	19,055,102	19,055,102
Unspent conditional grants	4,103,312	4,103,312
	<b>29,858,414</b>	<b>29,858,414</b>

#### 2016

##### Financial assets

	Loans and receivables	Total
Trade and other receivables from exchange transactions	4,924,660	4,924,660
Other receivables from non-exchange transactions	6,282,737	6,282,737
Cash and cash equivalents	103,229,763	103,229,763
Inventories	3,159,123	3,159,123

## uBuhlebezwe Local Municipality

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### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>Financial instruments disclosure (continued)</b>		
VAT Receivable	34,884	34,884
	<b>117,631,167</b>	<b>117,631,167</b>
<b>Financial liabilities</b>		
	<b>Financial liabilities</b>	<b>Total</b>
Post retirement benefits	5,749,000	5,749,000
Trade and other payables from exchange transactions	25,664,675	25,664,675
Unspent Conditional Grant	9,765,228	9,765,228
Short-term portion of finance lease	62,932	62,932
	<b>41,241,835</b>	<b>41,241,835</b>
<b>33. Commitments</b>		
<b>Authorised capital expenditure</b>		
Already contracted for but not provided for		
• Infrastructure	17,851,057	19,750,039
• Community	14,068,363	2,161,182
• Other commitment	-	539,826
	<b>31,919,420</b>	<b>22,451,047</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	<b>31,919,420</b>	<b>22,451,047</b>
<b>Capital expenditure</b>		
<b>This expenditure will be financed from :</b>		
• External loan	-	-
• Government Grants	28,765,394	21,911,221
• Own sources	3,154,026	539,826
	<b>31,919,420</b>	<b>22,451,047</b>
<b>Total operational commitments</b>		
Already contracted for but not provided for	<b>31,919,420</b>	<b>22,451,047</b>



## uBuhlebezwe Local Municipality

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Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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#### 34. Contingencies

##### Contingent liabilities

- One of the municipal traffic officer impounded a vehicle for not being roadworthy and kept it at the testing grounds, when the owner of the vehicle returned to collect his vehicle it could not be found at the testing grounds. When asked what had happened, the traffic officer stated that the owner had come on another day and collected his vehicle, the vehicle owner denied ever collecting the vehicle and opened a case for damages and loss of income against the Municipality. Expected contingent liability of R 39 000
- Litigation is in the process against the municipality relating to an ill-informed resolution taken by council to condone the sale of a council owned property way below market value. A short period after a new Council was elected and they then resolved to rescind the resolution to sell the mentioned property. A process of then declaring the sale agreement null and void was then commenced. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as likely, and the case should be resolved within the next year. Expected contingent liability of R 42 000 is expected for valuation fee.

##### Contingent assets

There are no contingent assets.

#### 35. Related parties

There were no related party transactions in the current financial Year.

#### 36. Key source of estimation, uncertainty and judgments

##### Key Sources of Estimate, uncertainty and judgement

The following areas involve a significant degree of estimation and uncertainty

- Useful live and residual values of property, plant and equipment
- Recoverable amount of property plant and equipment
- Present value of defined benefit obligations
- Provision for doubtful debts
- Determining to collectable amount traffic fines issued

# uBuhlebezwe Local Municipality

(Registration number KZN 434)

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Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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### 37. Prior period errors

1. Workmans compensation not accounted for in 2015/16 .

2. Workmans compensation not accounted for in 2011,2012,2013,2014 and 2015

The correction of the errors results in adjustments as follows:

1. Statement of financial position		249,766
Trade payable		
1. Statement of financial performance	249,766	
Employee cost - workmans compensation		
2. Statemet of financial position		687'340
Trade payable		
2. Statement of financial performance		
Employee Cost	687,340	

### 38. Risk management

#### Financial risk management

Due to the largely non-trading nature of the activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities.

The municipality's finance function monitors and manages the financial risks relating to the operations of the municipality. These risks include credit risk, liquidity risk, market risk relating to interest rate risk.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to recover future commitments. The municipality managers liquidity risk through an ongoing review of future commitments and credit facilities. Unspect Grants are cash backed. Cash flow forecasts are prepared and adequately utilised borrowing facilities are monitored. The table below analyses the municipalitiesfinancial liabilities into amounts due within the 12 months after the financial year end. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2017	2016
Trade and other payable	19,055,102	24,822,190
Other lease obligations		62,932
	<u>19,055,102</u>	<u>24,885,125</u>

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The maximum credit risk exposure in respect of the relevant financial instruments is as follows:

Financial instrument	2017	2016
VAT Receivables	-	34,884
Cash & cash equivalents	118,300,602	103,229,763
Trade receivables	5,885,269	4,924,660
Other receivables from non-exchange	8,093,395	6,282,737
Maximum Credit Exposure	132,279,266	114,472,044

#### Market risk

# uBuhlebezwe Local Municipality

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Figures in Rand	2017	2016
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### 38. Risk management (continued)

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At year end financial instruments exposed to interest rate risk were as follows.

Bank Balances and Cash	<u>118,300,602</u>	<u>103,229,763</u>
Maximum Interest Exposure	<u>118,300,602</u>	<u>103,229,763</u>

#### Price risk

Due to legislative restrictions, the municipality does not trade these investments.

### 39. Events after the reporting date

Events after the reporting date are those events, both favourable and unfavourable, that Occur between the reporting date and the date when the financial statements are authorised for issue. In the current financial year there were no events identified after the reporting date

Two types of events can be identified :

Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date) and those that are indicative of conditions that arose after the reporting date (non adjusting events after the reporting date). If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

### 40. Unauthorised expenditure

There is no unauthorised expenditure as at 30 June 2017.

### 41. Fruitless and wasteful expenditure

Interest	9,636	-
Penalties	98,295	-
	<u>107,931</u>	<u>-</u>

The above fruitless and wasteful expenditure was incurred as a result of penalties and interest that we charged by SARS in relation to an adjustment that was made by the municipality on the VAT return in the month of February 2017. This adjustment relates to the previous financial years.

### 42. Irregular expenditure & Deviations

Opening balance	132,338	4,156,107
Add: Irregular Expenditure - current year	448,983	128,551
Less: Amounts written off	(132,338)	(4,152,320)
	<u>448,983</u>	<u>132,338</u>

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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### 42. Irregular expenditure & Deviations (continued)

#### Analysis of expenditure awaiting condonation per age classification

Current year	-	-
An amount of R 448 983.00 is included as irregular expenditure due to a request for quotation that did not specify the required minimum threshold for local production for awards made .	448,983	-
	<b>448,983</b>	<b>-</b>

#### Deviations – current year

	Reasons for deviation	
Supply of delivery of branded ties and scurfs	Emergency - Outgoing Councillors were awarded with certificates, branded ties and scurfs as token of appreciation, there was not sufficient time to obtain quotations.	4,050
Installation of borehole	Due to numerous failed attempts to follow normal procurement processes including both advertising and section 32 to urgently obtain a service provider to install a borehole, section 36 was utilised.	161,580
Advertising posts	Quotations from service providers were sourced and quoted above R30 000. Due to the urgency of advertising the director posts a decision was taken to deviate from Normal SCM process	90,248
Provision of protection services	Due to the urgency and sensitive nature of the services required, it was not possible to follow normal scm processes.	286,254
Performance for prayer day	UBuhlebezwe Municipality was hosting an annual prayer day and an artist was invited to perform on prayer day and a price was negotiated at R18 000.	18,000
Performance for prayer day	UBuhlebezwe Municipality was hosting an annual prayer day and an artist was invited to perform on prayer day and a price was negotiated at R28 000.	28,000
Repairs to vehicle	Impractical - Striping of the vehicle was required in order to determine the fault and therefore be able to quote.	34,628
Advertising posts	Quotations from service providers were sourced and quoted above R30 000. Due to the urgency of advertising the director post (CFO) a decision was taken to deviate from Normal SCM process	40,822
Advertising final budget and tariffs for 2017/18 financial year	Quotations from service providers were sourced and quoted above R30 000. Due to the urgency of advertising for the final budget a decision was taken to deviate from Normal SCM process.	34,241
		<b>697,823</b>

### 43. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	578,920	500,000
Amount paid - current year	(578,920)	(500,000)
	<b>-</b>	<b>-</b>

## uBuhlebezwe Local Municipality

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### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>43. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Audit fees</b>		
Current year subscription / fee	1,218,130	1,302,043
Amount paid - current year	(1,218,130)	(1,302,043)
	-	-
<b>PAYE, UIF &amp; Skills</b>		
Current year subscription / fee	7,876,065	8,872,919
Amount paid - current year	(7,876,065)	(8,872,919)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	8,560,672	7,926,717
Amount paid - current year	(8,560,672)	(7,926,717)
	-	-
<b>VAT</b>		
VAT receivable	-	34,884
VAT payable	7,220,812	-
	7,220,812	34,884

#### Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days at June 30, 2017:

UNAUDITED SUPPLEMENTARY SCHEDULE

SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

	Cost/Revaluation			Accumulated Depreciation				Carrying value	
	Opening Balance	Additions	Disposals	Closing Balance	Current	Disposal	Change in estimate	Impairment	Closing Balance
As at 30 June 2017	R	R	R	R	R	R	R	R	R
Budget & Treasury	17,290,751	218,031	83,205	17,421,478	718,175	84,487		10,345	2,297,179
Community Services	135,860,612	6,346,542	279,497	141,945,659	4,962,918	277,652		31,817	45,152,975
Corporate Services	34,189,095	1,096,843	3,646,819	31,580,659	1,729,630	1,673,010		6,147	14,426,111
Executive & Council	2,168,508	1,013,247	684,503	2,495,252	1,027,735	498,350		1,855	549,857
Housing	121,770			121,770	11,046				84,834
Planning & Development	350,193			350,193	166,734				130,076
Public Safety	1,911,752		16,993	1,894,760	1,305,048	18,978		0	1,500,573
Roads & Technical services	300,160,340	19,119,485	57,194,771	271,027,054	11,221,247	38,869		7,819	157,722,326
Solid Waste	4,460,687		17,103	4,451,594	1,707,089	16,785			2,095,870
Sports & Creation	5,522,466	2,652,605		8,175,093	4,386				233,773
Social Development	53,127	9,466,283	359	9,549,051	146,316	359			185,717
Total	611,043,321	39,866,776	59,864,241	491,033,854	20,097,949	2,608,786	0	57,843	224,843,034
									256,167,824
									0
	Cost/Revaluation			Accumulated Depreciation				Carrying value	
	Opening Balance	Additions	Work in Progress brought into use	Closing Balance	Opening Balance	Current	Disposal	Change in estimate	Closing Balance
As at 30 June 2018	R	R	R	R	R	R	R	R	R
Budget & Treasury	1,909,560	685,230		2,594,790	584,520	430,719			1,015,239
Community Services	120,170,544	9,525,475		129,704,018	35,214,078	4,535,359			39,748,430
Corporate Services	32,334,790	1,864,305		34,199,095	12,600,823	1,438,435			14,262,278
Executive & Council	1,906,307	260,122		2,166,508	760,975	301,552			1,502,527
Housing	121,770			121,770	67,323	12,601			60,124
Planning & Development	350,193			350,193	130,659	50,341			181,000
Public Safety	4,291,990			4,291,990	1,372,497	308,606			1,761,183
Roads & Technical services	241,952,439	19,119,485		271,750,940	135,518,762	10,652,578			146,371,241
Solid Waste	4,460,687			4,460,687	1,237,699	422,951			1,560,650
Sports & Creation		5,520,590		5,520,590		4,286			4,286
Social Development	53,127			53,127	39,977	4,932			44,909
Total	407,667,516	37,168,214	0	465,391,745	187,670,318	18,462,650	0		206,132,978
									249,338,770.00

## MAINTAINED SUPPLEMENTARY SCHEDULE II

1105 2ND ST @ 13 2ND AVE 2017